

CO-OPETITION

- 1. A revolutionary mindset that combines competition and cooperation**
- 2. The Game Theory Strategy that's changing the game of business**



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Published By Doubleday, 1997 ISBN 0385479506 290 pages

Part 1

How does one go about changing the game of business?

- Change the elements: from players, to added values, rules, tactics, and scope.
- Remember, nothing is ever set in stone. Take advantage of change and be a quick and agile company that moves and responds as needed.
- Business strategy and the concept of co-opetition is designed to provide a framework by which companies can gain sustainable competitive advantage by changing the game to their own advantage.
- When companies work together they create a larger and more valuable market than they could by working individually.
- The objective is to maximize your return on investment regardless of how other companies perform.

To change the game of business, you have to alter one or more of these basic elements:

Players

By changing the mix of competitors or complementors for your company. A complementor is a provider of products or services that add value to whatever you are offering. For example a computer hardware company and a software company are complementors. Their products are worth more when combined.

Added Values

The company that holds the most value to the value net holds the power. Change the added value of the various players and you change the game itself.

Rules

In business, the rules are negotiable.

Tactics

Alter the player's perceptions, and you change the outcome of the game. Perceptions are shaped by tactics.

Scope

Understand how other commercial games influence yours, and take advantage of any implicit boundaries other parties are using to improve your own competitive position.

“You have to be able to compete and cooperate at the same time”. –Ray Noorda, Novell founder

“You don’t have to blow out the other fellow’s light to let your own shine.”
-Bernard Baruch

Part 2

“If you don’t have a really tough competitor, you ought to invent one.” -Bill Smithburg, CEO, Quaker Oats

Players The Value Net is composed of customers, suppliers, competitors, complementors, and your company. Before you enter any new value net, stop and ask yourself “Which of the current participants in this value net has the most to gain by my participation?” Get that player to pay for your participation.

To increase the number of customers in the value net, companies must work together or individually to:

- Educate the market about product benefits
- Be prepared to lose money on early customers in order to build market momentum.
- Subsidize customers who buy complementary products – the more they buy from a complementor, the more they also buy of your product.
- Become their own customers – by setting up new companies to buy and use their own products.

To increase the competition, customers can:

- Offer to subsidize any capital investment required for a new company to enter the industry
- Provide a guaranteed sales contract if a new company commits the resources required.
- Supply a potential newcomer with a price at which he is prepared to give them business.
- Offer a provision in which a company can match whatever is the best price offered by a competitor.
- Form a buying coalition to steer customers toward lowest priced complementors or towards new ones.
- Pay companies to develop complementary products.
- Become your own complementor by establishing operations for an appropriate product.

To increase the number of complementors, companies can: To increase supplier numbers companies can:

- Pay companies to establish operations in that supply industry. This offsets capital costs.
- Form a buying coalition to pool together orders and establish a viable market for a new supplier.
- Become your own supplier! Set up a new company.

Added Values

The central challenge of business is to find ways to create additional added value, either by making a better product or by using resources more efficiently. Sometimes the best way to maximize your own added value is to create solid relationships with your customers. Apart from saying “Thank you” to your customers, the loyalty program is a tangible and effective way to also:

- Reward customers with products or services they value rather highly than cash
- Offer better deals to loyal long-term customers than new customers
- Say Thank you by offering discounted complementary products or services, complimentary passes for them to bring-a-friend.
- Say thank you once a solid relationship is built
- Reward loyal customers and loyal suppliers because both are essential to your company’s operations

“If everyone can do it, you can’t make money at it.”
-Sharon Oster, Yale School of Management

If your customer loyalty program is copied by competitors for short-term gain, you can:

- Use customer feedback to put out a product which is tailor-made for your customer group.
- Create a strong brand identity.
- Increase your production volume as quickly as possible.
- High volume in your market will give you an economy of scale your competitor may not have.

Rules You can change the rules of business anytime. They are negotiable. Keep in mind though that your suppliers, complementors, customers and competitors can do so as well.

In the marketplace, the one who has the most power gets to make all the rules.

The general rules of business are intended to ensure all trading practices are fair. Contracts are honored, and open competitive markets are available.

- Contracts that guarantee the customer the best price are what we term Most Favored Customer Contracts. Disadvantage: a seller can't offer introductory discounts to new customers the way a new seller can.
- Contracts that stipulate that in the event another party comes in with a lower price than yours, and you retain the business by matching that lower price are termed as Meet the Competition Contracts. You get last right of refusal.
- Contracts with suppliers have variations where they may guarantee the same price as any other supplier.

An entirely different set of rules are at play in a mass market situation where the seller sets the price and the customer either pays or buys from someone else.

Sellers don't want to set prices too low; they want to charge a low price to loyal customers without threatening a competitor's customer base. The most frequently used device to achieve this is the targeted rebate program. Well-targeted programs allow a company to treat its customers far better than a rival. It should develop loyalty and provide an opportunity to work in with partners who will add further value to the program.

This targeted rebate program works well for big-ticket items rather than small ones.

Remember the most important party that can change the rules of business is the government. The government regulates through anti-trust laws and trade commissions that examine specific markets.

Game Tactics The game can be changed, by changing people's perceptions. Everything you do and everything you don't sends signals, from which others form their perceptions. The collective sum of those perceptions is the game.

To clear up any fog of uncertainty surrounding you, establish credibility by:

- Offering a meaningful guarantee
- Give free trials of your product or service
- Commit a huge amount of money to advertising

Tactics for preserving an existing fog of information

- It will be in your best interest once you are established in the market, to maintain current perceptions by limiting the amount of new and potentially damaging information that reaches the marketplace. Hide information about projects turned down that were successful for others, for instance.

Bring in an independent third party to whom each party's opening negotiating bids are made in private. This avoids the mistake of exposing your bottom line to the world.

Stir up a new fog by:

- Disguising situations where pricing is opportunistic
- Hiding high prices
- Preserving an image of quality by hiding low prices
- Frustrating the comparison shopper

Keep in mind stirring up a new fog is for many a double-edged sword. On one hand you may fool some of the people, but on the other, your competitors may prompt the public to question your campaign. Perception is the name of the game. Protect yours if it is a positive one in the eyes of the purchasing public.

Change Scope

No value net exists in a vacuum. Every value net operates in the context of a bigger picture. Boundaries can be moved, or expanded or totally altered at any time. There are no real boundaries, only a person chooses to create.

Similar to the sport of Judo, a new company can use a heavier opponent's weight against itself by:

- Pricing the product high upon entering the market. Incumbent heavyweights don't want to compete head to head with a newcomer, and will hold back.
- Introducing a product which has some chance of failure. Existing companies may copy your new product but under a different brand name, just in case it fails. This is the new entrant's window of opportunity.

The Judo concept may vary: An incumbent may opt to use predatory pricing to shove the new entrant out of the market. The new entrant can increase his capacity by building a greater plant with more capacity.

Most companies like to negotiate long-term contracts with their suppliers and customers. Whoever has the most power in any specific value net gets to specify how long the contract should be. Long-term contracts may fail to address situations that could arise. When two suppliers are bidding for your business, you have the power to decide the length of contract. By holding a long-term contract, suppliers are made to compete more aggressively and offer you a better price. You can take full advantage and lock in a good price for yourself.

The goal is to do well for yourself. Sometimes that comes at the expense of others, sometimes not. In business, your success doesn't require others to fail. There can be multiple winners. Putting co-opetition into practice requires hardheaded thinking. It's not enough to be sensitized to the possibilities of cooperation and win-win strategies. You need a framework to think through the dollars-and-cents consequences of cooperation and of competition.

Co-opetition theory in practice

Use these self-test questions to become more effective at applying the Co-Opetition theory:

- Have you written out a value net for your company, listing all the suppliers, competitors, complementors and customers involved?
- What opportunities exist for cooperation and competition with these four groups?
- How would you change the current participants or players in your value net?
- Who would stand to gain if your company chose to enter a new value net? Who stands to lose?
- What is your added value at the present time?
- What can you do to create more added value?
- Name particular ways you can create added value for loyal customers and suppliers.
- Who has the power in your value net?
- Which rules hinder you?
- Which rules help you?
- What new rules could you create for your contracts with suppliers and customers?
- Do you have the power to make these new rules at present?
- Does any other party have the power to change the rules?
- How do other participants in the value net perceive the game?
- Which perceptions do you think work in your favor?
- Which perceptions would you like to change?
- What is the current scope of your value net?
- How would you change it to make it beneficial to you?
- How would you link your value net to another and would this create added value?

The more you ask yourself these questions, the more you will better be able to position yourself and change the value net to your own advantage. The game will be played in your favor.

Last word

Co-opetition recognizes that business relationships have more than one aspect. As a result, it can occasionally sound paradoxical. But this is part of what makes co-opetition such a powerful mindset. It's optimistic, without being naïve. It encourages action, while helping you escape pitfalls. It encourages you to adopt a benevolent attitude towards other players while at the same time keeping you tough-minded and logical. You will see new opportunities, and be more creative. Keep the business forward-moving by changing the game and finding ways to make the pie bigger. Business becomes more profitable and more personally satisfying. Challenge the status quo, and do things differently—and better.